



**EXECUTIVE CHAMBERS
HONOLULU**

GOVERNOR LINDA LINGLE

2006 STATE OF THE STATE ADDRESS

Renewing Our Commitment to the People of Hawai'i

January 23, 2006

Mr. President, Mr. Speaker, Lt. Governor and Mrs. Aiona, members of the Legislature, Chief Justice Moon, Chair Apoliona, cabinet members, military leaders, members of the counselor corps, distinguished guests, and to all the people of Hawai'i.

Aloha and good morning.

It is a great privilege to once again come before you to talk about our state's future. It is a hallmark of American democracy that governors across our nation are given the opportunity to speak freely about the challenges their states face as well as their hopes and dreams for the future.

This, and other freedoms we too often take for granted, are being fought for today in distant lands across the globe.

Thousands of miles away, countries that suffered under tyranny for decades are now budding democracies because of America's leadership and sacrifice.

In the recent elections in Iraq, people walked as far as eight miles just to exercise their right to vote.

Thanks to the efforts of America's armed forces, democracy is gaining a foothold in Iraq and Afghanistan, and we in America are safer.

While in Iraq, our own Hawai'i National Guard 29th Brigade Combat Team conducted thousands of patrols, destroyed dozens of weapons stockpiles and detained hundreds of insurgents.

Perhaps equally important, these American soldiers provided thousands of Iraqi citizens with clothing, food, purified water, shoes, school supplies and medical care.

And they provided Iraqi citizens with a sense of hope and security that resulted in a voter turnout of 90% in the sector patrolled by the 29th Brigade.

Allow me to take a moment to recognize some of our heroes who are with us this morning.

Seated in the gallery and just recently returned home from Iraq is the Commander of the 29th Brigade, Brig. General Joe Chavez, Sgt. Major Robert Inouye, members of their brigade, and their families.

These soldiers represent the more than 3,000 men and women of our Hawai'i National Guard and Army Reserve who answered the call of duty and served with honor in Iraq, Kuwait, and Afghanistan.

On behalf of all the citizens of Hawai'i...welcome home, and thank you for your sacrifice and for ensuring a safer world for future generations.

Today it is once again my great privilege to report on the state of our state, and this year's address is made more meaningful by the presence of our soldiers.

2005 will go down in history as one of our best years ever.

The economic indicators are strong, investment is robust, and people are optimistic about the future.

Our work force grew by 3% this year — one of the fastest growth rates in the nation.

Our unemployment rate decreased to below 3% — the lowest in the nation.

Total personal income grew by 8% — the biggest increase since 1990, and the third largest increase in the nation.

Our gross state product — the most comprehensive measure of the economy — increased 4.7% in 2004. That is the biggest increase since 1991, and the fourth biggest increase in the nation.

Visitor arrivals in 2005 are estimated to have reached 7.4 million, the first time in history that we had more than 7 million visitors in a year.

And employment in the construction industry is nearing record levels.

As strong as those numbers are, they alone don't capture the full story of our success during the past year.

We achieved longstanding goals...from opening a new medical school in Kaka'ako...to establishing a refuge to protect our precious marine resources in the Northwestern Hawaiian Islands.

We strengthened our ties to Asia. Our delegation to China and Korea returned with significant agreements covering education and economic development. The businesses that went on the trip already expect to generate more than \$100 million in new business.

We regained our fiscal equilibrium because we were willing to make the tough choices, and exercise restraint in our spending.

When I came into office in 2002, the State was spending \$215 million more than it was collecting.

Today, rather than red ink, we are projecting a \$574 million positive balance.

That is a turnaround of over three-quarters of a billion dollars in just three years.

Now is the perfect time to share the results of this success with the people who made it possible — taxpayers who are struggling with the high cost of living, including skyrocketing housing prices and property taxes.

It is also the right time to address many unmet needs...from dilapidated school buildings...to a lack of access to healthcare...to deteriorating public housing and a growing homeless population...to overburdened transportation systems.

And it is obviously the best time in many years to save for the future while making smart investments in those areas that will secure a brighter tomorrow.

I want to talk first about the least glamorous of my proposals — setting aside more money to meet unexpected challenges in the coming years.

I am suggesting that we double the size of the state's Rainy Day Fund from \$55 million to \$110 million. Combined with the \$188 million in the Hurricane Relief Fund, this is a good start in creating a cushion for those times when the unexpected occurs.

Putting aside more money for a rainy day is the responsible, prudent and smart thing to do. And it is exactly what responsible individuals do when they have an increase in their income, because they know that the unexpected can and will happen.

At the same time we are putting something aside for future unexpected events, people need help — right now — in coping with the high cost of living.

Tax Relief

I want to use about half of the state's \$574 million surplus for tax relief for those who need it most.

I was disappointed last year when my proposal to raise the standard deduction was not adopted because it meant that those struggling to make ends meet would fall further behind.

The bottom line is that we are collecting income taxes from people who simply can't afford to pay them.

Given our current fiscal condition and projected future revenue, we can raise the standard deduction further than I suggested last year, to 75% of the federal level.

Moreover, raising the standard deduction helps hundreds of thousands more people than the Earned Income Tax Credit. It is simple for the State to implement, and easy for taxpayers to understand.

I realize there are other points of view on how to get money back into the hands of our citizens, including President Bunda's call for adjusting the income tax brackets.

I like his approach as well. That is why I am calling on the Legislature to adopt both ideas.

Combining an increased standard deduction with a widening of the income tax brackets would reduce the tax burden by \$86 million and benefit over 80% of taxpayers and their dependents.

It would mean that a family of four earning \$50,000 or less a year would save an estimated \$568 a year.

This proposal alone, however, is not enough to make a real difference for families coping with higher housing costs, higher property taxes, higher car registration taxes, higher gasoline prices, higher electricity rates, higher water and sewer bills, higher medical bills, and higher food prices.

In light of higher prices for so many necessities of life, I am proposing two additional tax relief measures this year in recognition of the reality that people across the state are facing, especially the hundreds of thousands who are living paycheck to paycheck.

First, I am suggesting that we grant a \$100 per person tax credit to those households earning \$50,000 or less a year in order to offset the taxes people pay on food, medical services and non-prescription drugs.

I think it is unconscionable that we tax people for eating and getting sick.

This tax credit would equal \$400 for a family of four and would benefit 707,000 taxpayers and their dependents.

Finally, I am proposing a one-time tax refund of \$150 per exemption for all but the highest income residents.

A couple with two children would receive a check for \$600 early next year. This one-time tax refund would benefit 857,000 taxpayers and their dependents.

The advantage of including a one-time refund in the tax relief package is that it gets money to people now when they need it, but it preserves our future options since we are not committed to pay it in the coming years.

If the Legislature enacts this \$285 million tax relief package, a family of four earning \$50,000 or less would receive \$1,568.

Let me repeat how much a family would save — \$1,568.

This is enough to pay a year's tuition at a community college with money left over for books, enough for a family to pay its electric bills for a year, or enough to pay off the mounting credit card debt that many are carrying.

I don't view this session as a fight between tax relief and more money for education... or between education and saving for a rainy day...or between saving for a rainy day and securing our economic future through investments in new energy resources.

I view it as a chance to literally have it all.

Perhaps not in the exact form and amounts that each of us wants, but surely we can manage to compromise now that the treasury is full.

We must resist framing the discussion in terms of "either/or", but rather we should frame it in terms of "how".

Supporting Education

Education must be one of our highest priorities, and is deserving of more support.

It is our hope for a better tomorrow, both for us as individuals and as a state.

Over time, it can wash away the barriers of disadvantage.

Almost all of us have been in a DOE or UH building that was run down — peeling paint, lack of electrical power, broken fixtures or worse.

And new housing developments have created over-crowded conditions at some schools.

I am proposing a dramatic increase of \$132.5 million for K-12 public education, including \$90 million in additional funds for school construction and repairs and maintenance.

This money is on top of the \$570 million already appropriated, but not yet spent by the Department of Education...for a total of \$660 million.

These are big numbers, although they are not as large as some have suggested.

Before we give the DOE a blank check, we must be certain we are getting our money's worth for the more than \$2 billion we are already spending each year on K-12 operations, and the \$570 million already approved to construct, repair and maintain our schools.

Besides the need for a robust repair and maintenance program and new school construction, the DOE is facing a severe teacher shortage.

I am proposing four laws to immediately address the shortage:

1. Allow retired DOE teachers to be hired for difficult to fill classroom positions for 24 months without any loss of retirement benefits.
2. Start a Master Teacher Program that would pay a \$10,000 a year bonus to any of the 111 National Board Certified Teachers who agree to teach in an underperforming school for three years. They must mentor the other teachers and would be allowed to return to their original school.
3. Create an Emergency Certified Teacher Program that would allow anyone holding a bachelor's degree or higher to teach in the subject in which they have degrees as long as they complete the substitute teacher training program or similar course.
4. Use \$500,000 to reestablish the Hawai'i Educator Loan Program, and reduce the amount of time you must teach from 10 to 6 years in order to qualify for loan forgiveness for tuition at any certified teaching program.

I have also included money in the Supplemental Budget for 100 more students in the College of Education at Manoa and West O`ahu and 150 more community college transfers.

The charter schools are an important adjunct to the traditional DOE schools. This important option for parents, students and teachers has never received fair and equal funding and we should change that this session.

Also, we should give the charter schools their own school district so they are able to receive funds directly from the federal government.

This will be a net gain for our state school system.

I am also requesting that you remove the cap on the number of charter schools so that we can establish seven new charter schools around the state that would use environmental education as their foundation.

I view environmental threats as one of the most serious problems for us to address.

It is increasingly important that future generations have an understanding of the issues and the choices we will face in the years ahead.

I have included money in my Supplemental Budget to establish these seven charter schools throughout the major islands, including two on the Big Island.

I hope you will give this proposal your most serious consideration.

While public schools garner most of the education headlines, both good and bad, our University system is equally important and deserving of additional support.

Last month I proposed that the UH receive an additional \$45.6 million in operating funds and \$252 million more for facilities, including \$175 million in private funding to make the dream of a UH West O`ahu campus a reality.

These proposals include the money needed to repair crumbling buildings, increase campus security, expand workforce education in nursing, teaching and the construction trades; fund the College of Pharmacy at UH-Hilo, and support the Hawaiian Studies program.

Housing Our Residents

A good education is still the surest way to a higher-paying job, but even with rising wages, the price of rental housing and home purchase is out of reach today for too many people.

The supply of rental housing has tightened and Hawai`i ranks 48th in home ownership.

And as anyone knows who has visited Ala Moana Beach Park, the breakwater at Kahului Harbor on Maui and other areas across the state, the number of homeless among us is growing.

It is simply not *pono* for our families to be living in cars, people to be sleeping in the doorways of businesses downtown or on picnic tables in our parks.

There is no one silver bullet to solve the problems of homelessness and affordable housing, but there are many good ideas that can and should be enacted.

We should begin by learning from our successes.

I am proud to report that the Department of Hawaiian Home Lands has awarded more residential leases and provided more families with opportunities for home ownership in the last two years than in the entire decade of the 1990's.

This fact is impressive, but let me share with you the human side of this success.

This is a letter written to Hawaiian Homes Commission Chairman Micah Kane after the recent awarding of homestead lots in the Lai'opua subdivision on the Big Island.

It is important to note that every home built by DHHL means there is one less family competing for an affordable home in the open market.

DHHL's success has been so dramatic that the Building Industry Association recently named Hawaiian Homes Commission Chairman Micah Kane as its Housing Advocate of the Year.

The Department achieved this success through many innovative programs, such as leveraging federal rural development funds, pre-selection credit reviews, and ongoing counseling to assure successful home ownership.

Such approaches can serve as a model for other affordable housing programs.

But we need more housing for our non-Hawaiian residents as well, so I am making good on my commitment to ask the Legislature to redirect Legacy Lands tax money from the general fund into our housing funds.

After all, there is no greater legacy we can leave our children than a home they can call their own.

Coupled with this infusion of additional State funding, I am proposing that the Legislature authorize the use of special purpose revenue bonds to encourage the construction of additional workforce housing across the state.

Special purpose revenue bonds have proven to be a successful tool for funding private schools, hospitals and economic development projects.

It is time to apply this tool to meeting our housing needs.

To address the problem of homelessness, I am proposing that we spend \$10 million to renovate and repair existing homeless shelters, which have long suffered from neglect...and another \$10 million in grants for supportive housing services.

The importance of this funding cannot be over emphasized.

Experience has shown that the homeless need more than just a roof over their head.

They need services as well — substance abuse counseling, mental health treatment, and job training — that will give them the tools they need to stay off the streets.

Supportive housing provides all of that in one package.

I have submitted again this year a complete package of housing proposals, including: increased rental subsidies, a program to pay the first month's rent and security deposit, the lack of which keeps many people homeless; streamlined land use processing, and a redefinition of affordable housing in order to qualify more families.

Lastly, we need to keep our eye on the ball and severely restrict the raiding of any of our housing funds as has been done to the tune of more than \$200 million over the last 10 years.

I am proposing a new law to require that any future diversion of funds meant to finance housing projects would need a two-thirds vote of the Legislature.

Promoting A Healthy Hawai'i

While tax relief, education and housing may be the state's most obvious needs, access to medical care and social services has also suffered during the lean years and now requires more funding.

Now is the time to move forward to extend MEDICAID coverage to more low-income children and adults.

I am proposing programs to extend coverage to an additional 29,000 people over the next six years, with the majority of the cost borne by the federal government.

It is also time to restore dental coverage for needy adults...specifically preventive care for adults in the MEDICAID program.

This is both the humane and the smart thing to do since a lack of preventive dental care will lead to the need for more painful and costly oral surgery for which the State would be obligated to pay.

Environmental Stewardship

I spoke earlier this morning about the environmental threat we could face if we fail to teach our children the concept of good stewardship of our lands, oceans and other natural resources.

And while teaching stewardship will help protect our resources over the long term, we need to invest now in various environmental programs and projects.

That's why we've asked you to approve a record \$92 million budget for the Department of Land and Natural Resources that is unprecedented in scope and scale.

The disrepair of our state parks deserves immediate attention.

Residents and visitors alike expect and deserve better than broken or filthy restrooms.

I have asked you for an additional \$10 million to repair our park facilities as well as additional funding to clean them more regularly and to provide nighttime security patrols.

And I am again calling on the Legislature to invest in the repair and reconstruction of our small boat harbors.

Besides this additional spending, I am proposing strict new penalties for those who illegally trespass into our forests and who steal timber, including precious *koa*.

Additionally, I am asking that revenues derived from forest reserves be used to expand and enhance forest stewardship.

I am also proposing that we continue the successful partnerships with private landowners in order to encourage more habitat conservation plans on private lands. This law is due to expire next year.

Respect for nature and respect for our native Hawaiian culture go hand in hand.

To lose this would be to lose the very essence of our islands. A vibrant host culture enriches and benefits all of us.

I pledge my continued support for those programs and efforts that preserve and perpetuate the Hawaiian culture.

Protecting the Public

Of all the tasks that government undertakes, none is more fundamental than ensuring the safety of our citizens.

The natural disasters of the past year made it clear that civil defense preparedness is a necessity, not a nicety.

Last month, I announced a comprehensive emergency preparedness package.

There are many components to that package, but the bottom line is this:

- First, we must harden our public and private buildings, to better resist natural disasters when they do hit.
- Second, we must be better prepared to respond before and after a disaster strikes by: modernizing our warning systems, stockpiling supplies, doubling the funds available to respond in the first hours after an emergency, and entering into an agreement with other states so we can call on them for aid when disaster strikes.

We are the only state in the nation that has not yet signed that agreement and I am asking the Legislature to authorize us to do so now.

- Third, we must create additional shelter spaces including special areas for those needing medical care, and a place where people can bring their pets.

We learned from Hurricane Katrina that the unwillingness to leave pets behind can lead to human death and injury.

- Finally, we must adopt severe penalties for those caught looting during or after a disaster and make it a serious crime to attack a civil defense worker.

In addition to natural disasters, there are other, more subtle threats to our security that we must address.

Energy Self-Sufficiency

Our dependence on imported oil leaves us vulnerable to price swings and shortages of supply.

Earlier this month, I proposed a sweeping set of proposals designed to move us from our decades-long overdependence on imported oil toward energy self-sufficiency based on renewable resources.

If we are going to achieve self-sufficiency, we will need to push hard on many fronts.

State government needs to lead the way by building more efficient buildings and using less oil itself.

Weaning ourselves from oil won't be cost-free, but we must do so if we want our economy to survive the next time the price of a barrel of oil increases by 50%.

I am proposing a bold new initiative to make Hawai'i the center of America's development of hydrogen as an alternate fuel source.

Already internationally recognized leaders in this field have expressed interest in using Hawai'i as the place where hydrogen can move from the research phase into production.

Additionally, we need to provide expanded tax incentives for people or businesses who install energy efficient appliances...solar hot water heating, photovoltaics or wind energy systems.

We also need to encourage the development of biofuels as a substitute for oil — fuels through farming.

Just as we want to mandate 20% alternative fuels for electricity production by 2020, we also want to adopt a standard of 20% use of biofuels in gasoline by 2020.

Keeping Hawai'i on the Move

The price of gasoline is just one of the challenges that we face when we drive each day.

Another is gridlock on our highways.

This is why I am seeking an additional \$137 million for highway construction for projects such as: the North-South Road and Kapolei Parkway on O`ahu...the expansion of Kuhio Highway on Kaua`i, the realignment of Honoapi`ilani Highway on Maui and the design of an afternoon contra-flow zipperlane on the H-1 Freeway.

Traffic Safety

Along with improved traffic flow, we have an obligation to make sure that pedestrians are safe when crossing the street.

Just last week another senior citizen was killed by a driver while crossing the street in a marked crosswalk.

This 86-year-old *kupuna*, who was so full of life, was on her way to buy supplies for centerpieces for her church choir.

The news story said that Betty Tanaka Santiago's great grandchild asked, "But why can't I see her anymore?"

My heart breaks for Mrs. Santiago's family. I am very angry about this senseless loss of life.

I am proposing tough new measures to place traffic violators in jail and revoke their driving privileges for failing to yield the right-of-way to a pedestrian.

We must not abandon our search for solutions to this and other very difficult problems that continue to plague our State, most notably drug abuse.

Drug Abuse

I am again calling on legislators to recognize that tougher penalties for repeat drug offenders and the manufacture of ice are essential if we ever hope to make a dent in this community crisis.

But we also need to increase prevention efforts. As an example, I am proposing \$10.2 million in federal funds to expand the About Face and Healthy Lifestyles programs for at-risk youth and needy adults.

This new spending will allow us to double the size of these programs.

Director Ted Daligdig and students from the About Face program are with us today. Please stand and be recognized.

Protecting the Things That Make Hawai`i Special

I have shared a wide range of ideas with you today that I believe all fit into the following basic framework...ensuring that our economic prosperity continues...ensuring that we all share the benefits of that prosperity...and ensuring that we protect those things that make Hawai`i so special.

Of all the things that make us special, one of the foremost is our diversity as a people.

Remember the euphoria we all felt last year when the Little League team from `Ewa Beach won the world championship?

Where else would you find a team that close-knit with kids named Memea...Aliviado...Ranit...Javier...Guevara...Fe`au...Baniaga...Rosete...Enos...Aglipay...Kam and Tirpak?

Just like that team, as a state we draw strength from our diversity.

And we truly believe that it is right and proper to help those in need.

These two characteristics of diversity and a desire to help others blended together for our troops as they not only fought wars in far-off lands, but helped people who were different than them.

The soldiers from Hawai`i always treated the Iraqi and Afghan people with respect.

As one of our returning National Guardsmen shared his experiences with me at a welcome home ceremony at Kalaeloa, tears came to his eyes as he spoke of having to leave the Iraqi children behind.

Our ability to show aloha for others...including people from vastly different backgrounds...is one of our greatest sources of strength.

I'm also reminded of our diversity as we begin the yearlong centennial celebration to mark the journey taken by the first 15 *sakadas* who arrived on the Big Island from the Philippines in 1906.

Like so many before them and so many since, they were driven by a dream — a dream of a better life, of hope and opportunity.

From those humble roots, today the Filipino community makes up almost 25% of our population.

Its members are among the leaders in all walks of life, from business to politics to the professions.

Earlier this month, I had the privilege of retracing the journey of the *sakadas* as part of an official delegation that traveled to the Philippines to celebrate this landmark event.

That journey reminded me of the obligation that those of us in public service have to keep Hawai'i a place where diversity is respected, and where the dreams of our people, regardless of their origins, can be fulfilled.

This is the final State of the State Address I will have the privilege of making during this term of office.

I'd like to take this opportunity to thank the members of the Legislature for working with me to move our state forward.

While we haven't always seen eye-to-eye, the debate has benefited the public and often made the results better.

I'd also like to thank the 50,000 state employees, my colleagues in public service, who work hard to make life better for the citizens of this state.

There is one state employee in particular whom I would like to recognize today. He is Francis Lum, our state's protocol officer.

Mr. Lum has worked directly with five different governors, beginning with Governor Burns. He is retiring after 58 years of service...⁴⁰ as the state's protocol officer.

Please join me in acknowledging the dedication and commitment of this exemplary public servant.

I will miss you terribly Mr. Lum.

My final thanks go to the people of Hawai'i for giving me the chance to serve.

Whether here at home, or traveling on the mainland or in foreign countries, wherever I go, whoever I meet, I am always so full of pride because I represent the best people in the best place in the world.

In closing, I can say with gratitude and humility that the State of our State is better today than it was three years ago. It is better today than it was last year.

And if we have the political will to work together to make the correct choices during this legislative session, the State of our State next year will be even better and stronger and more promising.

Let's commit to work together to ensure that our economic prosperity continues...that we all share in the benefits of that prosperity...and that we protect those things that make Hawai'i special.

We have the opportunity. We have the means. Together, let's seize this moment.

Mahalo, and God bless you all.